

Motability
Operations | Group plc

Social Bond Framework



Motability Operations exists to provide its customers access to affordable, worry-free mobility and has been doing so for more than 40 years. By exchanging their mobility allowance to lease a reliable new car, scooter or powered wheelchair, customers with a wide range of different disabilities, have the opportunity to achieve freedom and independence. The proposition is universally available across the UK and is delivered in a sustainable manner, therefore able to meet the needs of customers today and in the future.

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Introduction

Motability Operations (“MO”) was established in 1978 to deliver the Motability Scheme under contract to Motability, the national charity (“the Charity”). The objective of the Charity is to facilitate the relief and assistance of disabled people in connection with the provision of personal or other transportation. The Charity retains responsibility for oversight of the Scheme. The Scheme enables disabled people to become mobile by using their mobility allowance to lease a new car, scooter, powered wheelchair or wheelchair accessible vehicle.

The Charity and MO are constitutionally and operationally separate entities; their relationship is governed by a Service Agreement. This Agreement sets out the Charity’s role in overseeing the Scheme and grants MO the exclusive right to utilise the mobility allowances to provide customers with a vehicle.

MO is owned by affiliates of Barclays Bank, HSBC Bank, Lloyds Bank and Royal Bank of Scotland. The owner banks have permanently waived their right to equity dividends.

As the largest fleet operator in the UK, MO’s objective is to offer affordable worry-free mobility to the c.1.8 million people in receipt of higher-rate mobility allowances (and so provide an opportunity for them to achieve freedom and independence).

MO’s comprehensive product offering means that the customers’ lease payments cover the full worry-free package including the funding, servicing, maintenance and repair of their vehicle, tyre and windscreen replacement and prioritised roadside recovery. MO aims to provide sustained value and choice, combined with first-class customer service and market-leading disability expertise. Successful delivery of these objectives has led to high levels of renewals by customers in recent years (91% during the year ending 30 September 2019).

MO employs around 1,200 people based in three locations, London, Bristol and Edinburgh. MO works with over 30 leading car manufacturers to provide customers with a choice of more than 2,000 makes and models. The relationship with manufacturers and with their 18,000 trained Motability Scheme Specialists at their franchised dealerships is invaluable to the Scheme, helping to deliver a unique service and value for money to disabled people.

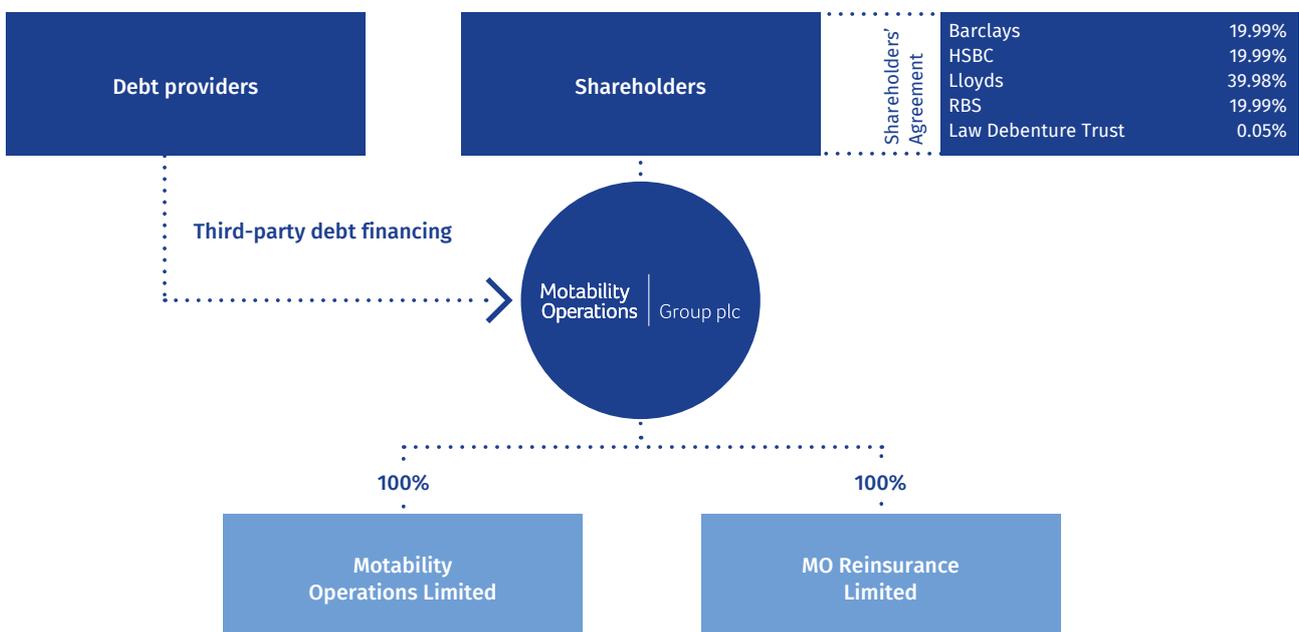
To access a car, scooter or powered wheelchair through the Motability Scheme, customers must receive one of the qualifying mobility allowances provided by government:

- Higher Rate Mobility Component of the Disability Living Allowance (DLA)
- Enhanced Rate of the Mobility Component of the Personal Independence Payment (PIP)
- War Pensioners’ Mobility Supplement or the Armed Forces Independence Payment (AFIP)

1.8m
people in receipt
of higher-rate
mobility allowances

91%
of renewals by
customers in
September 2019

Corporate structure



The Scheme

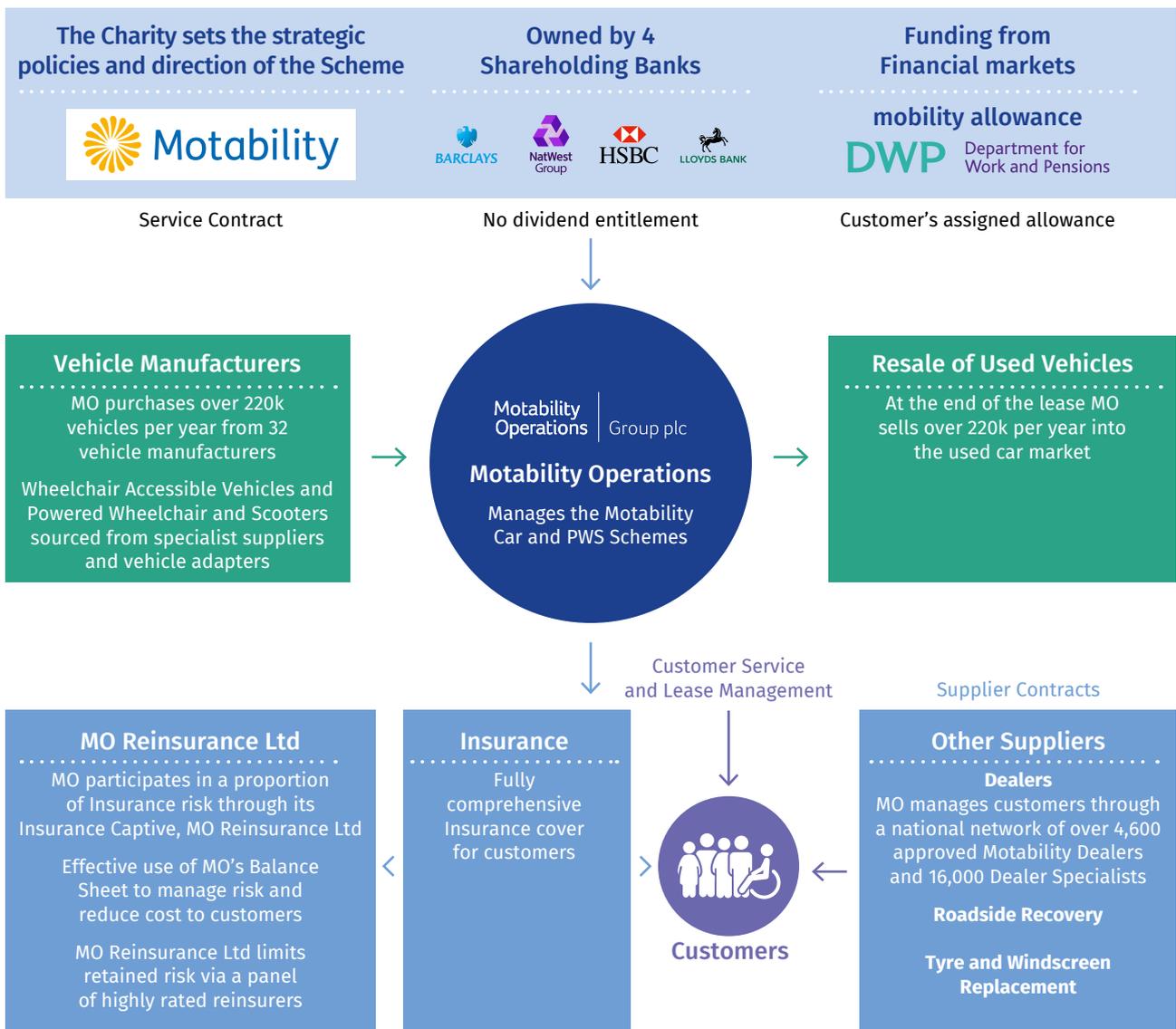
The Scheme is accessible to recipients of the higher rate mobility allowances. Once a customer chooses to join the Scheme their mobility allowance is used to lease a new car, scooter, powered wheelchair or wheelchair accessible vehicle.

The Scheme offers a leasing package that is over 45% cheaper than comparable market offerings¹. As of 2019, over 600,000 people use and benefit from the Scheme. Since 1978 over four million cars, powered wheelchairs and scooters have been delivered to MO's customers.

The Charity's oversight focuses on the outcomes for disabled people using the Scheme and ensuring that customers are provided with a first-class service at all times.

45%
cheaper than comparable market offerings

4m
cars, powered wheelchairs and scooters delivered to MO's customers since 1978



1. Motability Operations Group plc Annual Report and Accounts 2019.

Scheme Objectives

MO's customers benefit from a unique proposition that is delivered to a consistently high standard; MO achieved a 98% customer satisfaction score for 2019. This is the result of MO providing:

- **Universal service offering** – the proposition is designed to be universally accessible to all recipients of a qualifying mobility allowance, regardless of their personal circumstances, location or means;
- **Worry-free mobility** – providing a comprehensive, all-inclusive worry-free mobility solution, with standard car lease including:
 - full insurance, maintenance and servicing,
 - tyre and windscreen replacement,
 - breakdown cover and
 - 60,000-mile allowance over three years;
- **Excellent customer service** – with particular focus on understanding how disability affects customers' needs, having a dedicated call centre and working with MO's service partners to ensure this is consistent through all customer touch points;
- **Affordable choice** – providing customers with access to a wide range of affordable vehicles which are suitable for their specific needs;
- **Value for money** – delivering a proposition which represents excellent value for money for its customers;
- **Efficiency** – delivering a cost-effective and seamless proposition for its customers, including a continual focus on tightly managing MO's cost base and maximising its economies of scale;
- **Sustainability** – delivering the proposition in a sustainable manner, to meet the needs of today's and tomorrow's customers.

MO's target is to offer at least 200 vehicles that can be leased using solely the mobility allowances; during 2019 more than 350 vehicles were available including a wide range of automatics and larger vehicles which in many cases are more suitable to customers' specific disability needs.

However, many customers (79% to the year ending 2019) choose to make an Advance Payment. This payment, taken in full at the start of each lease, enables customers to choose from a wider range of vehicle models.

Customers have freedom to choose the vehicle and the specification they wish from MO's comprehensive range.



“

It really is a lifeline that I can use to get out and about and live my life, taking the kids to school, and visiting friends and family

”

Due to his condition, sickle cell anaemia, Ronald has difficulty walking long distances. Without his Motability Scheme car, Ronald says he'd be stuck at home. Since his first moment driving it's been "absolute freedom".

The car has been the difference that enables Ronald to lead a relatively normal life, enjoying time with his family and socialising with friends. His wife, Brenda, often drives him and on his better days, Ronald can drive himself. He and his family love going on holidays to Wales, with his daughters enjoying the relaxing, long car rides they have together saying, "it is a bonding moment for all of us".

Today more than 600,000 customers and their families put their trust in the Motability Scheme. It provides more than just a car, Wheelchair Accessible Vehicle, scooter or powered wheelchair, it aims at offering its customers all the freedom that comes with a truly worry-free lease. Visit the Motability Scheme website to hear from Ronald and other customers about what the Scheme means to them.



<https://news.motability.co.uk/inspiration/ronalds-story-enjoying-the-freedom-that-the-motability-scheme-brings-us-as-a-family/>

MO's Financial Model

To ensure that the Scheme remains sustainable in the long term, MO's financial model and policies are designed to be robust and resilient. With this objective in mind, MO uses an Economic Capital model to determine its capital requirements and a capital management policy which aims to ensure that the business is capable of withstanding significant economic or market shocks, thereby safeguarding the provision of services to customers into the long term.

MO also factors a modest profit margin into the lease price to ensure that there is an appropriate degree of inbuilt recoverability in the event of financial shock. Given that MO does not pay equity dividends to its shareholders, any capital/retained profit that is deemed surplus to requirements may, at the discretion of MO's Board, be donated to The Charity or the Motability Foundation (described later).

The Motability Charity

Motability, the Charity, is a national charity set up with all-party parliamentary support in 1977 and incorporated by Royal Charter. Its objective is to help disabled people with their personal mobility and its areas of responsibility include:

- Setting the strategic policies and direction of the Motability Scheme (which comprises the Car Scheme and the Powered Wheelchair and Scooter Scheme) and overseeing its performance to ensure that it meets the needs of disabled people;
- Providing grants to disabled people who would not otherwise be able to afford the vehicle or adaptations they need;
- Raising awareness of the Scheme among potential customers and people who advise them, for example health professionals, so that they can make an informed decision as to whether they join the Scheme or not.

The Charity is also mandated to fund wider activities to benefit those in the UK that experience mobility challenges. In December 2019, Motability announced the establishment of an endowment fund – the Motability Foundation – which will enable Motability to support the mobility and transportation needs of disabled people on a sustainable basis into the future.

Since it was set up in 1977, the Motability Scheme has provided more than four million vehicles and has helped millions of disabled people and their families to enjoy the 'road to freedom'.



Now I can fly



Nasir's confidence plummeted after a spinal tumour left him struggling to walk. Since joining the Scheme he's been able to find a suitable car for his needs, which he says "changed my life totally".

Nasir can now travel freely and recently drove to London by himself. Having a car brought him his independence back and he believes his confidence has now grown to "200%".



<https://news.motability.co.uk/inspiration/now-i-can-fly/>

The Charity can provide grants to help disabled people where the need is greater, or other associated costs are prohibitive, including:

- Vehicle adaptations – such as wheelchair hoists and Infra-Red controls
- Vehicle advance payments – often for larger, more expensive vehicles on the Scheme
- Driving lessons – to enable independence and access to the Scheme

Each quarter, in its role as overseer of the Scheme, the Charity reviews MO's performance against contractual Key Performance Indicators. These relate to customer service, affordability and sustainability. If necessary, the Charity will ensure appropriate actions are taken in the event of any shortfalls in performance.

Corporate Social Responsibility

MO embraces environmental and social responsibility in several ways:

- Environmentally-friendly cars to give customers a greener option when they're picking a vehicle
- Recycling at all sites, with waste separated out into different categories for onward disposal
- Greener offices which have recently been refurbished to the highest BREEAM standards
- Lower CO₂ emissions as a registered member of the Carbon Trust
- Charitable donations to support and sponsor local initiatives through the 'mycommunity' project
- Support and funding for charities such as Children in Need and Comic Relief
- Making periodic donations to Motability or the Motability Foundation



“
I can go anywhere
”

Despite being diagnosed with motor neurone disease, Barry continues to live an adventurous life. He says that thanks to his car “there’s always something to do”.

The Motability Scheme has enabled him to adapt since his diagnosis in 2012, with the car allowing Barry to travel easily and with all the equipment he needs. Since retiring his favourite trip has been driving to Scotland and discovering the beauty of the East and West Coasts. His next plan is to travel across Europe.

 <https://news.motability.co.uk/inspiration/barrys-story-the-freedom-to-explore/>

Strategy and Values

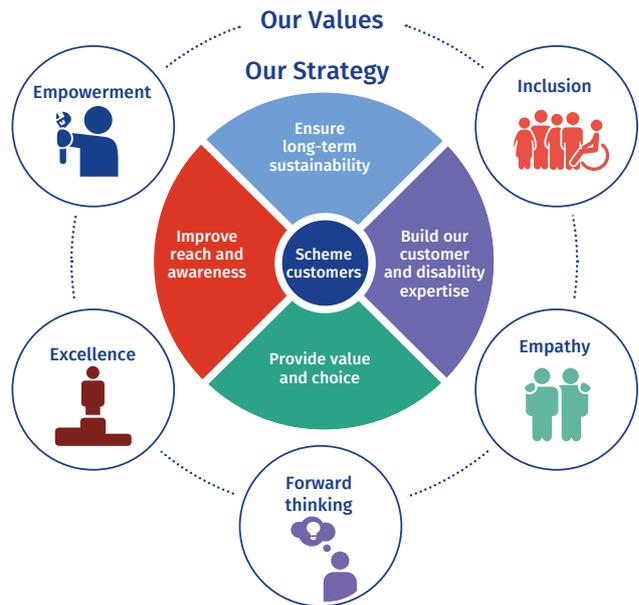
MO diligently ensures its corporate strategy and values are always aligned and remain customer-focused. The harmonisation and synchronisation of these is fundamental to delivering the proposition and ensuring MO delivers the best service and value possible.

Values

MO’s values are central to delivering and meeting the needs and expectations of its customers. By embracing diversity MO is able to have a wide variety of approaches and perspectives, enhancing performance and creating value for customers.

Strategy

To ensure MO’s activities deliver outstanding value to customers MO has defined four strategic ‘pillars’. These set out a clear framework with which MO aligns business objectives, strategic initiatives, performance targets and business planning. The people, positioning principles, culture and values form the bedrock to delivering these objectives.



98%
 customer satisfaction
 in 2019

60,000
 mile allowance over
 three years

Framework Overview

MO exists for one purpose: to provide mobility to its customers utilising an operating model that is sustainable, robust, commercial and efficient. MO's 'worry-free' proposition is premised on combining value, expertise, assistance and choice that would be very hard to replicate by any other provider.

The Scheme must ensure it retains accessibility to funds that allow it to meet current and future financial requirements. The vast majority of MO's funding is taken from the wholesale debt capital markets. Funding is required to finance the fleet and associated activities that ensure MO can deliver the social benefits MO was created for.

MO's unique position as a provider of mobility to people that may not otherwise have access to a vehicle has therefore led it to create a Social Bond Framework (the "Framework"), under which it can issue Social Bond(s). This Framework is in accordance with the ICMA Social Bond Principles (SBP) 2020¹.

In alignment with these Principles, for each Social Bond issued, Motability Operations asserts that it will adopt the following, as set out in this Framework:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

MO will aim to, where possible, adhere to best practices in the market and will review the Framework's alignment to updated versions of the Principles as and when they are released. As such, this Framework may be updated and amended in the manner described in Amendments to this Framework below. Any such updated and amended Framework will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an External Reviewer, be published on MO's website and replace this Framework. Any Bonds subsequently issued will be subject to the updated and amended Framework.



“

It's a wonderful opportunity to get some independence, and to be able to have that normality of life.

”

Lynley, a former secondary school teacher, had a life-changing spontaneous fracture whilst teaching a class. It left her unable to walk and needing significant help from her husband and family, impacting on her work and leading to a very dark period of her life. She says joining the Motability Scheme was one of the key decisions that marked a turning point in her mind-set, and that this “changed our life completely then, from being somewhere very negative and troubling to something that is very positive and very hopeful for the future.”

For Lynley having the right car means that she can finally be out and about pursuing her hobbies, like wheelchair yoga and mindfulness. She can pop into the shops, go for short trips, and generally enjoy being able to do things on her own the way she used to.

Lynley says she would encourage anyone who's eligible to join the Scheme, as it provides independence and freedom which can change lives for the better.



<https://news.motability.co.uk/inspiration/lynleys-story/>

1. ICMA's Social Bond Principles 2020 <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

Use of Proceeds

An amount equivalent to the net proceeds raised from any MO Social Bond issued under this Framework will be allocated, in part or in full, to finance new eligible social expenditures (“Eligible Social Projects”) and/or to refinance existing Eligible Social Projects whose disbursements occurred no earlier than 36 months prior to the issue date of the Bond.

MO expects to use proceeds raised by Social Bonds on a portfolio basis to fund both the extant fleet and the new vehicles joining the Scheme in the future. The assets are purchased solely for the use of customers and usually follow a rolling three-year profile. At the end of each lease the vehicles are sold into the used car market; extensions to the lease may be made when customers choose to retain their vehicle for a period longer than 36 months. Vehicles are not recycled within the Scheme; once a vehicle is no longer required by the customer it is sold. All assets bought are new, directly from the manufacturers’ dealer network. All vehicles are for the use or benefit of qualifying disabled customers; no other customers exist now or in the future for MO.

The portfolio approach to assets ensures MO, as issuer, is not required to identify specific leases or vehicles against each Bond issued. Customer vehicles, normally being owned by MO for three years, are significantly shorter in tenor than the usual maturity of Bonds issued.

Process for Project Evaluation and Selection

The Project Evaluation and Selection Process will ensure that the proceeds of MO’s Social Bond(s) issued under this Framework are allocated to new or existing expenditures that meet the eligibility criteria set out above in Use of Proceeds.

MO’s ESG Oversight Committee (“Committee”) will meet semi-annually (or more frequently as required) to confirm adherence to the project evaluation and selection process principles and that ICMA guidelines are being met. The Committee will comprise MO’s Commercial Director (whose responsibilities include Customer Services), the Finance Director, the Head of Asset Risk & Pricing and the Head of Treasury. The Committee will give its opinion from an impartial and disinterested basis.

Also, on a semi-annual basis, the Committee will review the aggregate pool of social expenditures for alignment with the eligibility criteria listed in Use of Proceeds. The Committee will review the management of proceeds as described in Management of Proceeds and facilitate reporting as described in Reporting.

The Committee will report its findings to MO’s Asset and Liability Management Committee in the first instance; thereafter these will be made available on MO’s website.

Eligible projects will be aligned with MO’s internal guidelines, policies and risk management procedures, in addition to applicable national, European and international social and environmental standards and regulations, to ensure stringent management of any potential negative social and environmental impacts.

The following table outlines the eligibility criteria for these Eligible Social Projects and their alignment with the UN Sustainable Development Goals and the underlying target.

ICMA Social Bond Principles project category and Target Population¹	Socioeconomic Advancement and Empowerment Target Population: People with disabilities	
Eligibility criteria	Vehicles (including petrol, diesel and alternatively fuelled vehicles such as hybrid, electric etc), powered wheelchairs, or scooters for recipients leased to individuals that receive one of the: <ul style="list-style-type: none"> • Higher Rate Mobility Component of the Disability Living Allowance (DLA);² • Enhanced Rate of the Mobility Component of the Personal Independence Payment (PIP);³ or • War Pensioners’ Mobility Supplement or the Armed Forces Independence Payment (AFIP)⁴ 	
Alignment with UN SDG Targets	SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status	

1. ICMA’s Social Bond Principles 2020 <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>
 2. <https://www.motability.co.uk/contact/faqs/what-is-the-higher-rate-mobility-component>
 3. <https://www.gov.uk/PIP>
 4. <https://www.gov.uk/claim-for-injury-received-while-serving/armed-forces-independence-payment-afip>

Management of Proceeds

Management of Proceeds will be the responsibility of the Treasury department at MO under delegated authority from the ESG Oversight Committee. Formal submissions regarding these proceeds will be made on a regular basis to the Asset and Liability Management Committee.

Funds raised will be directed to activities concerning the provision of vehicles to customers; Management of Proceeds will reflect this objective.

Full use of proceeds to the Eligible Social Project may not occur over a short period. During the period between receipt of funds and full deployment MO may hold amounts in investments until required. MO will keep a record of the shortfall and temporarily hold and/or invest an amount equal to the unallocated proceeds of any Social Bond issuance in its accounts and/or treasury liquidity portfolio.

MO will oversee the allocation and tracking of expenditures for Eligible Social Projects up to an amount equal to or exceeding the net proceeds of Social Bond(s) issued. MO intends to fully allocate the proceeds within 24 months after the issuance date of each Social Bond; full use should be significantly more rapid.

To manage this process MO will establish a Social Bond Register. The proceeds of any Social Bonds will be deposited in MO's general funding accounts and be earmarked as being used as such in MO's Social Bond Register.

The Social Bond Register will be reviewed semi-annually by the Committee.

The Social Bond Register will contain relevant information including:

1. Details of the Bond(s): ISIN, pricing date, maturity date, etc.
2. Details of Eligible Use of Proceeds, including:
 - Eligible Social Projects
 - Amount allocated
 - Other necessary information so that the aggregate of issuance proceeds allocated to the Eligible Use of Proceeds is recorded at all times
 - Number of beneficiaries from the Use of Proceeds

MO will operate a rolling portfolio of assets to be categorised as Eligible Social Projects; the portfolio will be replenished as vehicles leave the Scheme. Replenishment may occur via new customers taking a vehicle for the first time or as existing customers replace their vehicle with a new one.

Until the maturity of relevant Social Bond(s), in case of divestment or cancellation of an Eligible Social Project, or if an allocated project no longer meets the eligibility criteria, MO commits to reallocate the proceeds to other Eligible Social Projects depending on availability. These changes would be tracked thoroughly and included in reporting to maximise transparency and to prevent double counting.

Reporting

MO will make and keep readily available reporting on the allocation of net proceeds to the Eligible Social Projects and wherever feasible reporting on the impact of the Eligible Social Projects. MO is committed to report a year from the launch of a Social Bond, and annually thereafter, until full allocation of the net proceeds. This reporting will be made publicly available on MO's website.

Allocation Reporting

An annual allocation report will be made publicly available within one year of issuance of any Motability Operations Social Bond(s), which will detail the allocation of the net proceeds from any outstanding issuance. The allocation report will include the following details:

- Total amount allocated to Eligible Social Projects;
- The amount and/or percentage of new and existing projects (share of financing and refinancing);
- The year of investment / disbursement;
- The balance of unallocated proceeds.

Impact Reporting

MO will provide impact reporting on the expected social impacts of the Eligible Social Projects. MO will report on the number of individuals who benefit from its activities, customer satisfaction scores, customer retention rates and affordability as well as qualitative case studies. Impact reporting will be made available on an annual basis.

All reporting will be made public on MO's website <https://www.motabilityoperations.co.uk/>

External Review

Second Party Opinion

Motability Operations has engaged DNV GL to provide an External Review, in the form of a Second Party Opinion on this Social Bond Framework, to confirm its alignment with the 2020 ICMA Social Bond Principles and the 2019 Sustainability-Linked Loan Principles, as well as its strong social credentials.

The Second Party Opinion is publicly available at <https://www.motabilityoperations.co.uk/>

External Verification

MO is committed to engage an assurance provider or an External Reviewer to assess the compliance of any Bonds issued or loans drawn against the Motability Social Bond Framework on an annual basis.

The resulting report will be publicly available at MO's website <https://www.motabilityoperations.co.uk/>

Amendments to this Framework

The Committee will review this Framework on a regular basis, including its alignment to updated versions of the Principles as and when they are released, with the aim of adhering to best practices in the market.

Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of MO and DNV GL. Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an External Reviewer. The updated Framework, if any, will be published on Motability Operations' website and will replace this Framework.

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